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STATE FUND



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"Serving Montana Employers and Employees"

STATE DOCUMENTS COLLECTION

FEBRUARY 1992

## RATEMAKING PROCESS

MAR 05 1992

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Montana law requires, "The State Fund must be neither more nor less than self-supporting. Premium rates must be set at least annually at a level sufficient to ensure the adequate funding of the insurance program, including the cost of administration, benefits and adequate reserves, during and at the end of the period for which the rates will be in effect."

Our ratemaking process is designed to satisfy this legal requirement using our computer data and the services of a professional, independent certified actuary.

### OBJECTIVES

The process attempts to meet three major objectives.

1. Rate stability and predictability over time;
2. Rate credibility by using reliable data; and
3. Rate adequacy to cover expected losses.

### TWO-STEP PROCESS

Although by its very nature the process is complicated, it is easier to think of the process in two steps.



1. Determining the total fund's revenue needs for the year for which the rates are being set.



2. Analyzing over 400 individual classification codes' accident experience.



The actuary calculates the total fund's revenue needs by taking into account numerous factors such as:

Continued on Page 6

Volume 01 Number 02

## MEDICAL COST CONTAINMENT SAVINGS

Medical cost containment measures saved the State Fund and its policyholders nearly \$13 million in Fiscal Year 1991. Controlling the increasing costs of medical benefits provided for injured workers is a major task facing all of us in the 90s. This is not just a problem facing the workers' compensation system in Montana, but a national problem. Nationally, over the last decade, medical costs for occupational injuries have risen at three times the overall inflation rate for the past ten years according to the National Council on Compensation Insurance.

These costs have more than tripled in Montana over the past ten years, even though, during much of this time, there has been a legislatively mandated "freeze" on medical cost increases. Medical costs continue to consume a larger and larger portion of the benefit pie.

In spite of this, the State Fund realizes considerable savings in medical costs by rigorously employing certain cost containment methods available to us. Two of the most effective methods are our automated fee schedule and our "bill audit program."

### AUTOMATED FEE SCHEDULE SAVES

#### \$5.75 MILLION

All medical charges, with the exception of hospital costs are regulated by a fee schedule. This fee schedule sets the maximum rate payable for specific services. Most bills submitted are in excess of the allowable amount. In order to ensure the roughly 420,000 medical services for which we are billed each year are paid properly, we use a computer program which automatically determines the maximum fee payable for each service, eliminates duplicate billing, performs the necessary accounting transactions and generates the data file required for payment by the State Auditor's Office.

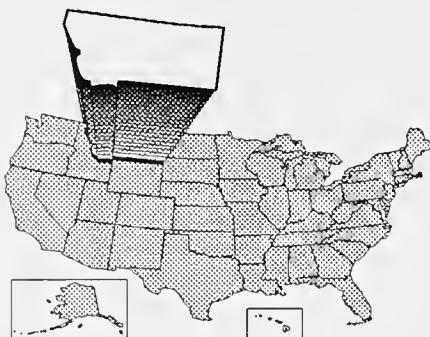
Hospital charges are not fee scheduled, since amounts payable differ from one facility to another.

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# COMPARING RATES BETWEEN STATES

We have all seen recent news releases comparing rates charged for workers' compensation insurance in Montana with other states. There are many factors which make such comparisons virtually meaningless. These factors together will vary from state to state, making it difficult, if not impossible, to arrive at a common base from which such comparisons can be made.

Although the philosophical basis for workers' compensation is very similar in most states, the specific legislation and the administration governing a workers' compensation program in each state may be vastly different. Benefit levels for injured workers and allowed medical costs may be considerably different from one state to another.



The administration of the law in each state not only can be organized differently (an industrial commission operation versus a court operation), but the attitudes of those administrative bodies may be quite different. For instance, one state may have a very liberal administrative body and another, a very conservative body. The relative activity of attorneys acting on behalf of claimants may have an effect on claim costs. Further, the liberal or conservative nature of the court system also comes into play.

The quality of the work force within a state has an impact on the types, severity and costs of injuries in that state. Along with the varying quality of labor, the economic complexion of the states may vary considerably. The rates of a state with a predominantly industrial economy cannot be compared with those from a state which is primarily agricultural in nature.

There will be variations in the intensity and success of safety programs. The degree of employer and employee commitment, involvement and cooperation in safety programs is of extreme importance.

Wage levels vary considerably from one state to another. Average wage levels have a direct impact on the average cost per claim, making wage loss benefits in one state much different from those in another.

The availability of medical and hospital facilities must be considered. Along with this, the attitudes of medical care providers may cause considerable variation in such things as how long an injured worker remains off work.

Since workers' compensation insurance rates only reflect one side of a very complex equation, comparisons of rates from one state to another must be viewed in light of these other factors.

## NEW DISABILITIES ACT

The new Federal Americans with Disabilities Act (ADA) which goes into effect on July 26th will change the ways many Montana businesses make employment decisions. If you have 15 or more employees, **KEEP READING**.

A one day conference focusing on the practical applications of ADA will be held at the Butte's Copper King Inn on March 23rd. This training is for all managers and supervisors who deal with employment practices including job application procedures, job descriptions, job accommodations, hiring, firing, workers' compensation and other employment issues. Now is the time to learn your responsibilities.

A complete agenda can be requested and reservations may be made by sending \$75.00 to Rehabilitation Association of Montana (RAM), 445 West Alder, Missoula, MT 59603, or telephone requests will be accepted by calling (406)543-6005, ask for Jane or Amy. Motel room reservations can be made by calling the Copper King Inn at 1-800-332-8600.

## MEDICAL DEDUCTIBLE PROGRAM DELAYED

The Medical Deductible Program has been delayed until several areas of concern can be worked out with the National Council on Compensation Insurance regarding the filing of the appropriate discount factors. When the program is available, we will contact policyholders who have expressed an interest. We appreciate your patience while waiting for the new Medical Deductible Program to become available.

# EMPLOYER'S FIRST REPORT

What can you do as an employer to reduce your liability and protect your rights under the Montana Workers' Compensation and Occupational Disease Acts? What are your responsibilities as an employer in filing an injury report?

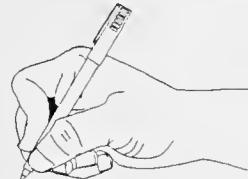
Montana law states an employer is legally responsible for filing an accident report within six days after notification of an accident. *This does not waive the employer's right to dispute the claim. In fact, an area on the Employer's First Report of Injury asks, "Do you have any reason to question this claim?"* If you do, you should check the "yes" box and explain fully. If you don't complete this area, chances of prevailing on an issue of compensability are substantially reduced. The carefully completed report should be sent to the State Fund, P.O. Box 4759, Helena, Montana, 59604-4759.

In addition to satisfying your legal obligation, the Employer's First Report provides essential information to the claims examiner is handling the claim. Prompt and complete information on this report will allow the examiner to make a timely determination as to compensability. Be as accurate and concise as possible. Delayed reporting or lack of complete information hinders our claims examiner's ability to make aggressive informed decisions.

Delay can also create a financial hardship on your employee, promote hostile feelings and can cause unnecessary, costly litigation. Late reporting can compromise potential subrogation investigation and, most importantly, delay the professional evaluation completed by our claims examiner on your behalf.

To ensure prompt handling, please:

1. Enter your policy (firm) number on the form. This will allow the State Fund to process the report more rapidly.
2. Fill out each section of the form accurately, leaving no blank spaces. Your claims examiner needs all the information to complete the preliminary evaluation. We also suggest either you or your authorized representative complete the report rather than the injured worker.
3. If you question the claim, mark the appropriate box and, when appropriate, attach a letter explaining your concerns.
4. If the injured worker is available and agrees with your report of the accident, have him or her sign the form. However, never delay mailing the Employer's First Report of Injury form for lack of the worker's signature.
5. Detach and keep one copy of the completed form for your records.
6. Mail the completed Employer's First Report of Injury as early as possible, and never delay over six (6) days after the injury is reported to you.



Remember to keep a copy of the Employer's First Report for your records. Federal law requires you to keep a copy of all reports of occupational injury or disease "for five years following the end of the year to which they relate."

If you need a supply of the Employer's First Report forms, please request copies of SF-MIS LF 937 (Rev. 3/90) by contacting our office. If you have versions of its form prior to the March 1990 revision, you should discard them and order a supply of the revised form.



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Printing and distribution costs for this public document are available from the Production Editor, Management Information Services, State Fund, P.O. Box 4759, Helena, MT 59604-4759.



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## IMPORTANT PERSONAL VEHICLE ALLOWANCE CHANGE

The personal vehicle maximum allowance per mile increased from \$0.26 to \$0.275 effective January 1, 1992. If you reimburse your employees for *actual* expenses for the use of their personal vehicle, you must maintain receipts and show the expense separately in your records with documentation it was incurred as a necessary part of your business. You need not report the reimbursed amount as payroll. If you do not maintain receipts, you may pay a personal vehicle allowance and do not need to report it as wages on your payroll report.

# SLIPS, TRIPS AND FALLS

Slipping, tripping and falling are not just winter problems, it is appropriate to address them during any time of year.

In 1989, the National Safety Council said falls caused 16.4% injuries in the work place. Nationally, injury-causing accidents happen an estimated 180,000 times a year. The Montana Department of Labor found 14.7% (4,360) of all reported accidents in Fiscal Year

90 were slips or falls. Some of these injuries mean permanent disability and even death to a worker.



## COMMON FACTORS

**Surface:** the design, type, weathering, protective cleaning or waxing methods and products, and lighting;

**Work assignment:** the lifting weight, reaching range or movement of objects;

**Worker:** the physical condition, walking or running characteristics, age, physical and mental health, emotional condition, alertness and range of motion; and

**Footwear:** the type and condition of the sole, the shape, style and fit.

Tripping or slipping can result in many types of injuries. Even when one does not actually fall because of a trip or slip, the individual may suffer serious and painful injuries from wrenches or strains.

## WATCH WHERE YOU WALK

Preventing slips, trips and falls seems as simple as telling people to watch where they're walking. But that message is difficult to get across, considering the fairly constant percentage of work place injuries attributed to falls.

Workers and others are perpetually "stepping into the unknown" due to many different, but mostly foreseeable factors. Delivery persons load up with articles which grossly distort or obscure their vision; workers engaged in deep conversation trip while walking; one who ignores signs warning of a wet floor is liable to land flat on the back . . . or face.

Employee safety meetings and awareness programs conducted on a routine basis are a must.

## IMPROVE FLOOR SAFETY

Floor coverings such as mats made of either rubber or plastic vinyl aid in restoring a safe degree of friction. Obviously, length, width and thickness of mats should be tailored to the specific requirements of the floor and work area. By raising the level of the working surface, matting is engineered to make a floor safer by keeping the work area dryer. Mats, in most cases, are constructed with holes for drainage of liquids that then pass through the fibers onto the underlying surface. This drainage keeps the majority of the slippery liquid away from footwear.

## APPLY FLOOR COATINGS

Various types of floor coatings can be used as additional safety measures. Low-cost, low maintenance floor coatings are practical remedies to the problem of slippery work surfaces. Make certain floors are clean and finished in a proper manner. Stripping a floor to its basic surface and carefully applying non-slip coatings ensure an increased degree of safety.

## PREVENTION

A simple, but often ignored way to control slippery floors is to stop leaks and spills on walking surfaces before they become a problem. It seems obvious that fixing and maintaining leaking pipes and faucets, and not allowing fluids to accumulate on working surfaces are elementary safety measures.

## RECORD KEEPING

Keep consistent records of floor inspections and cleanings. Maintaining accurate records will make employees responsible for specific safety actions.

## BOTTOM LINE

The "bottom line" in preventing the majority of slips, trips and falls is to keep all walking and work areas clean and free of obstructions. The final word on this topic must always be, watch where you are going, how you are walking, and pay attention to what is going on. Minor and minimal cost precautions prevent serious and costly injuries. How does your business look?

## MEDICAL COST CONTAINMENT SAVINGS (continued)

A "discount factor" is applied to each hospital. This factor is determined by the Montana Department of Labor and Industry. In order to maintain the freeze on medical benefits which became effective January 1, 1988, the appropriate discount factor is applied to each hospital charge. The payable amount is entered into the computer and the functions mentioned earlier are performed. During Fiscal Year 1991, which ended June 30, 1991, this automated system reduced medical costs nearly \$5.75 million.

### INTERNAL AUDIT PROGRAM SAVES \$7.2 MILLION

Each medical bill received is entered into the computer and forwarded to the appropriate claims examiner along with the claim file. The examiner reviews the file and each bill to determine such things as whether the service is related to the injury, whether the provider is authorized, whether maximum healing has been reached, whether claimant failed to appear for scheduled appointment, whether to combine payment with another service, whether a settlement may have terminated benefits and whether all necessary reports have been received, just to mention a few of the considerations. If everything is in order, the examiner authorizes payment of the bill by entering the proper codes into the computer. If all is not correct, the examiner enters other codes into the computer and correspondence is generated which notifies the provider of the reason the bill is reduced, denied or held for further justification.

In addition to this careful review by our well trained claims examiners, there are also a variety of contracted medical consultants to which the examiner can turn for assistance in making a proper determination. Through these extensive review processes, an amount in excess of \$7.2 million was determined to be ineligible for payment.

By stringent use of the automated fee schedule and the audit review procedures, we will continue to use every possible means available to control benefit costs, keeping premium rates at the minimum level needed.

## MONTANA: A DIVERSE WORK PLACE

From the prairies of eastern Montana to the mountains of the west, ours is a state of diversity. Diversity is not only visible in our terrain, but also in the wide range of employments in Montana.

Statistical information from over 26,000 of our policies offers interesting information about Montana. These 26,000 policies represent roughly 85% of all businesses in Montana. Coverages range from one and two person operations to multimillion dollar corporations. In Fiscal Year 1991 (July 1, 1990 to June 30, 1991), the following major groups comprised our policyholders (based on paid premium volume):

Services	23%
Construction (all types)	20%
Retail Trades	13%
Transportation	9%
Agriculture	8%
Manufacturing - Lumber	7%
Manufacturing - Other	5%
Wholesale Trade	5%
Mining	4%
Finance, Insurance, Real Estate, & Public Administration	3.5%
Not Classified	2.5%

These percentages are derived by the use of Federal Standard Industrial Classifications (SIC). Each broad classification covers the entire field of economic activities within that classification.

Workers' compensation policies acknowledge the diversity in employments through another, yet unique classification process. The State Fund currently utilizes 418 classification codes to classify different businesses. The State Fund adheres to the classifications as defined by the National Council on Compensation Insurance (NCCI) with a few deviations.

The diversity in employments in Montana is also evident in the processes and procedures used by individual businesses. Two businesses producing essentially the same product may do so in very different ways. New advancements in technology and automation contribute to a constantly evolving business environment.

Statistical information offers an interesting snapshot of the employments offered in Montana. The employments available in the state of Montana are an accurate reflection of our diverse state.

## RATEMAKING PROCESS (continued)

1. Trends in accidents;
2. Actual compensation and medical costs of previous years' accidents;
3. Estimated increase or decrease in next year compensation and medical costs;
4. Investment income;
5. Increase or decrease in estimated payroll;
6. Market share;
7. New legislation or court decisions;
8. Past financial performance of the fund; and
9. Operating expenses.

Not all of these will be factors in any given year but these and others will be considered. The result of this process is a "bottom line" total revenue need for the coming year.

The second step of the process analyzes three to four years' accident experience (estimated liabilities and payroll) for each code to determine, "What rate should have been charged?" The estimated liabilities are adjusted by a loss development factor, because we know these estimated liabilities will increase before they're finally paid,

and related to payroll to determine the rate which should have been charged. This experience rate is adjusted depending on the credibility of the class code. Credibility is merely a determination as to whether the individual class code is large enough so the experience is sufficient to provide an accurate rate.

The new class code rates calculated in step two are multiplied by the estimated payroll, the result being the amount of total revenue expected to be provided by these new rates. This figure is compared to the

"bottom line" total fund revenue need calculated in step one. This comparison results in a needed increase or decrease to each class code's new experience rate to arrive at the final rate.

For example, assume the actuary determines the total revenue needs for the coming year to be \$100 million and the new class code rates calculated based on experience are expected to generate \$95 million, then each new experience rate would have to be increased by 5.3% (\$100 million less \$95 million divided by \$95 million).

The law also requires the State Fund to use a tiered pricing method to decrease the rate for policy-holders with good experience and increase the rate for poor experience. The final rate will be adjusted up or down by a factor each year to accomplish this requirement. The final rate may also be limited both in terms of a maximum increase or decrease by action of our Board of Directors, which is a normal business decision made in calculating rates.

### COMPARING TO PREVIOUS YEARS' RATES

This process will result in differing increases or decreases when comparing last year's rate to the final rate for the new year. For example using the 5.3% illustration from above, if last year's rate was \$4.20 and based on experience the rate should be \$6.00, the final rate would be \$6.32 (\$6.00 times the 105.3%) and the rate increase from \$4.20 to \$6.32 would be 50.5%.

However, if the \$4.20 rate should have a new rate of \$4.30, the final rate would be \$4.53 or a 7.9% increase.



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